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C O N F I D E N T I A L SECTION 01 OF 03 DAKAR 001746

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TAGS: ENRG EAID ECON EPET SG CH VE IR
SUBJECT: SENEGAL PLANS TO TACKLE ONGOING ENERGY CRISIS

REF: A. DAKAR 1740 (NOTAL)

¶B. DAKAR 1100 (NOTAL)

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Classified By: Ambassador Janice L. Jacobs for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: The Government of Senegal (GOS) recently hosted a three-day workshop in the coastal town of Saly to diagnose the current energy crisis in the wake of the ongoing world market price increases that continue to negatively affect the Senegalese economy. The workshop featured energy experts, official presentations and panel discussions covering price structure, supply, distribution, storage capacity, and transportation of oil and oil products. Participants recommended reevaluating Senegal,s oil price structure, finding ways of strengthening supply and distribution, liberalizing the Societe Africaine de Raffinage (SAR,s) capital structure, as well as increasing its production capacity, and expanding national storage capacity. Participants appealed for greater cooperation among the different actors in the sector, namely SAR, distributors, retailers and consumers in order to create a credible and functioning energy sector. GE/GTi may shut down again due to fuel supply problems. Meanwhile, President Wade and Prime Minister Sall have explored assistance from China, Iran and Venezuela. END SUMMARY.

¶2. (U) The government-hosted workshop brought together representatives from multinational oil suppliers (Total/Elf, Exxon-Mobil and Shell,) consumer associations, other non-governmental organizations, the donor community, and officials from the Ministries of Finance, Agriculture and Commerce, as well as from SAR (owned 54.4 percent by Total/Elf, 23.8 percent by Shell, and 21.8 percent by Petrosen). Minister of Energy and Mining Madicke Niang, accompanied by Minister of Budget Hadjibou Soumare led the government delegation.

¶3. (U) Although petroleum products represent 60 percent of Senegal,s energy supply, the sector faces major challenges in maintaining a consistent supply and efficient distribution. SAR, unable to meet Senegalese consumption demand of approximately 2 million metric tons annually, holds the monopoly on Senegal,s annual imports and distribution of 1.1 million metric tons of crude oil and 650,000 metric tons of refined oil products. SAR attributes its weak production

capacity to obsolete equipment. Three key oil players -- Total/Elf, Shell, and Exxon-Mobil -- own Senegal,s six storage facilities, which have a combined storage capacity of 300,000 metric tons and are responsible for its distribution. A local, independent company, Elton, also distributes limited refined oil products.

GOS CALLS FOR WIDER SAR OWNERSHIP

¶4. (U) In his remarks, Junior Minister for Budget Soumare indicated that Senegal spends more than 40 percent of its export revenues on the importation of crude oil, and that its refinery faces production capacity constraints because of the lack of new investment to upgrade the plant. Energy Minister Niang reviewed some of the major dilemmas in the energy sector, including the control of the petroleum industry by SAR and its shareholder oil oligarchs, and the negative effects of world market oil price increases on the Senegalese economy. He indicated that the time has come for GOS to end the &dictatorship8 of SAR and its shareholders by increasing the GOS,s shares and opening up the refinery,s capital ownership to other African investors. He echoed Soumare,s call for stronger government ownership of the refinery,s capital. (NOTE: Petrosen, the national oil entity, recently increased its share ownership of SAR from 10 percent to 21.8 percent by purchasing Exxon/Mobil,s 11.8 percent for USD 2.5 million. It is also planning to buy 11.8 percent of Total,s shares to further increase its influence in the oil import sector. END NOTE.)

PROPOSED ACTIONS TO ADDRESS THE CRISIS

¶5. (U) With world-market oil price increases, Senegal has been having difficulties meeting local demand for oil, butane and electricity. To increase opportunities for oil market access, experts and government officials proposed a series of actions aimed at reorganizing the legal and regulatory

framework of the sector, reinforcing the role of the National Hydrocarbon Advisory Agency (&Conseil National des Hydrocarbures8) in protecting the refinery, increasing Senegal,s storage capacity beyond a 35-day supply, and implementing the 1998 liberalization program to promote greater inclusion of local and independent distributors.

OIL PRICE STRUCTURE

¶6. (U) The import-parity principal continues to be a major source of contention between the GOS and the oil suppliers: Shell, Total and Exxon-Mobil (Ref B). The import-parity price is currently aligned with the Mediterranean market but the Northwest Europe market price is set higher. While SAR and the distributors encouraged alignment with the Northwest European price reference to help SAR meet its financial commitments, secure supplies and modernize its facilities, consumer organizations and government experts rejected the proposal on the grounds that it would significantly raise the prices of oil, butane, and electricity. According to oil retailers, the current price structure and government price fixing, aimed at protecting consumers at the pump, are artificial and they hamper the development of the retail petroleum sector.

OIL PRODUCTION CAPACITY

¶7. (U) To help SAR meet its local and foreign demands, participants called for the modernization and extension of refinery production capacity to increase from 1.2 to 2 million metric tons per year in the short term. They suggested the establishment of an import-parity price that would guarantee the company,s profitability. Experts also recommended the restructuring of SAR,s capital to increase GOS shares and to diversify its shareholders to include private investors from Senegal and from neighboring West African countries. Formal studies on the cost of

modernization have not yet been undertaken, although energy experts think the cost would be too high for either GOS or SAR to absorb.

INCREASING STORAGE CAPACITY

¶8. (SBU) Some experts called for the establishment of a more robust storage capacity program. They urged the GOS to commit itself to securing land for a new facility as well as building a new sea pipeline for butane gas. Experts also highlighted the need for a crude oil import committee that would include all oil distributors and GOS representatives. The committee, under the supervision of the Ministry of Energy, would monitor the status of imports and the stock capacity levels. Currently, Senegal's total storage capacity is approximately a 20-day supply of 200,000 metric tons of refined fuel. In addition, there is storage capacity at Dakar port for 100,000 metric tons of diesel fuel. Cheikh Tidiane Ly, Total,s Logistics Director, told us that complying with a 35-day reserve capacity requirement, as established by GOS, would be impossible due the lack of storage space and decrepit state of existing storage facilities.

TRANSPORT OF REFINED PRODUCTS

¶9. (U) Oil distributor representatives recommended an annual revision of the transport price structure to take into account the world market price increases and the cost of trucks and parts. They urged the GOS to monitor and implement the transportation agreement between Senegal and Mali which provides for free movement of goods between the two countries and the West African Economic and Monetary Union (WAEMU) free-trade zone. (COMMENT: The lack of implementation of the transport agreement between Senegal and Mali has resulted in the latter illegally levying a 17 percent tax on any Senegalese trucks transporting petroleum products into Mali. Mali is one of SAR,s most important consumers of butane gas and refined petroleum products, and SAR is concerned that if it complained directly to Malian authorities, Mali would go to a different supplier, i.e. Cote D,Ivoire. END COMMENT.)

¶10. (U) In an effort to implement the 1998 liberalization program to promote greater inclusion of local and independent

distributors, the Ministry of Energy has been issuing import licenses to anyone who is willing to import refined oil and oil products. While this might appear as a good move on the part of GOS, private sector experts believe that the licenses will not result in an increased supply of refined oil and oil products, but rather, the number of issued licenses will be used as a measuring stick of GOS,s &progress8 in liberalizing the market.

GE/GTi AGAIN EXPERIENCES SUPPLY PROBLEMS

¶11. (SBU) GE/GTi, which supplies 20-25 percent of Senegal,s electricity, is again experiencing supply problems. For once, these are not due to Senelec being in arrears.

GOS SEEKS EXTERNAL AID

¶12. (C) To address Senegal,s energy needs, when Prime Minister Macky Sall visited China in June, he discussed Chinese construction of a coal-fired plant in Senegal. When the Ambassador met with President Abdoulaye Wade on July 4, Wade confirmed that Iran has agreed to construct a new petroleum refinery to refine five million tons of crude oil annually. Wade also said that Venezuelan President Hugo Chavez had offered to explore a joint project with Iran to build a fuel storage facility in Dakar, but Wade reported that he preferred to keep the Iranian and Venezuelan projects separate.

COMMENT

¶13. (SBU) The Saly workshop was a necessary step in acknowledging the urgent energy challenges facing the country. Generally, the GOS was pleased with the proceedings and encouraged by the enthusiasm of participants to heal energy sector wounds. The workshop made clear the GOS, intention to increase its ownership of SAR,s capital and to play a key role in SAR,s future. However, private sector representatives remain skeptical of the GOS, financial ability to see the necessary overhaul and maintenance of the refining sector through. It remains to be seen whether workshop recommendations will be implemented as opposed to collecting dust at the Ministry of Energy. At a time when the economy is experiencing slower than predicted GDP growth, and oil and gas price liberalization of the sector are crucial to address the long-term energy sector needs, to everyone,s surprise, the GOS is expanding its ownership of the sector. Much needed oil price liberalization would be very painful economically and politically, but according to industry experts, it would provide the long-term solution to Senegal,s ongoing energy crisis. END COMMENT.
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